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FINANCIAL INCLUSION: INITIATIVES AND ACHIEVEMENTS IN INDIA

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ABSTRACT

The growth of the economy is dependent on the growth of the rural market in the country. The availability of quality financial services in rural areas is extremely important for the growth of the economy as this will enable the large number of rural households to fund the growth of their livelihoods. Therefore greater financial inclusion in these segments is imperative. Through Financial inclusion we can achieve equitable and inclusive growth of the nation. Depending on the stage of development, the degree of Financial Inclusion differs among countries. For the inclusive growth process of economy the central bank has also provided high importance to the financial inclusion. The study focuses on the role of financial inclusion in strengthening the India's position in relation to other countries economy and the initiatives taken by Government and Reserve Bank of India for strengthening financial inclusion in the country. The relevant data for this study has been collected with the help of from various Research journals, Articles, reports of RBI, reports of NABARD and online resources. After analysing the facts and figures it can be concluded that undoubtedly financial inclusion is playing a catalytic role for the economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

KEYWORDS: Financial Inclusion, Current Status, Phases.

INTRODUCTION:

Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. According to World Bank report "Financial inclusion, or broad access to financial services, is defined as an absence of price or non price barriers in the use of financial services." The term Financial Inclusion needs to be interpreted in a relative dimension. There have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvised the financial economic growth. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy.

Inclusive growth as the literal meaning of the two words refers to both the pace and the pattern of the economic growth, it basically means, broad based, shared, and pro-poor growth. As per the Planning Commission of India "The term"inclusive" should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process and not simply as welfare targets of development programmes." In a simpler and widersense it means that inclusive growth as a strategy of economic development should not only aim at equitable distribution of growth benefits but also at creating economic opportunities along with equal access to them for all. The process of economic growth, especially when it is on high growth line, must attempt to take participation from all sections of society. Lack of access to financial services for small/ marginal farmers and weaker sections of the society has been recognized as a serious threat to economic progress, especially in developing countries.

The Reserve Bank of India setup a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the commission were incorporated in to the Mid-term review of the policy (2005-06). In the report RBI exhorted the banks with a view of achieving greater Financial Inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. The Committee on Financial Inclusion (Chairman: C. Rangarajan) defines financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Mrs. Usha Thorat, Deputy Governor, RBI in her speech on financial inclusion said "financial exclusion, broadly, is construed as the inability to access necessary financial services in the appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion."

OBJECTIVES OF STUDY:

- To identify the relevance of financial inclusion for economic and social development of society.
- To review the current status of financial inclusion in India in particular and the world general.

RESEARCH METHODOLOGY :

Research methodology is descriptive in nature. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD etc.

RELEVANCE OF FINANCIAL INCLUSION:

Providing access to financial services has significant potential to help lift the poor out of the cycle of poverty. Financial inclusion promotes thrift and develops culture of saving and also enables efficient payment mechanism strengthening the resource base of the financial institution which benefits the economy as resources become available for efficient payment mechanism and allocation. Poors are typically more vulnerable to financial exclusion this is simply because their major problems arise from the need for finances. The formal banking services, by exploiting economies of scale and making judicious use of targeted subsidies may reduce or remove market imperfections and facilitate financial inclusion of the poor, ultimately leading to higher incomes. The access to financial services by poors would lead to their consumption smoothing and investments in health, education and income generating activities, thus expanding growth opportunities for them.

Financial Inclusion is a key enabler to economic, social and transaction security of a country, thereby driving inclusive growth. It is for this reason that financial inclusion has been one of the key government priorities over the years, through various initiatives like Nationalization of Banks, Expansion of Banks branch network, Lead Bank Scheme, Business Correspondent Model, Mobile banking, Aadhaar enabled banking accounts, e-KYCs etc.

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings accounton its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc and all this at a reasonable cost

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.

2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required

3. Financial and institutional sustainability as a means of providing access to financial services over time

4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

FIGURE 1 briefly describes the essential contents of financial inclusion:

Source: Rangarajan Committee Report

BACKGROUND AND CURRENT STATUS:

As per the census of 2011, more than 40 per cent of the Indian population did not have access to banking facilities. Figure 2 below shows that a large population base is financially excluded both in urban and rural areas. Since low financial growth impedes economic growth, it was imperative for the government to initiate financial inclusion schemes that would alleviate poverty and reduce social inequity.

A similar such survey -- World Bank Index Survey (2012) states that only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution in last 12 months. A comparison of key performance measures with global counterparts further builds on the point of financial deprivation:

Table 1 shows Global Benchmarking on Key Performance Criteria, as of 2013

PARAMETER	BRAZIL	INDIA	SOUTH AFRICA
Number of commercial bank branches per 100,000 adults	47	12	10
Number of commercial bank branches per 1000 kms	8	35	3
Number of ATMs per 100,000 adults	130	13	62
Deposit Accounts with commercial banks/1000 adults	1153	1197	1567
Loan Accounts with commercial banks per 1000 adults	2358	147	482

The miniscule numbers across the statistical sources suggest an urgent need to further push the financial inclusion agenda to ensure that people at the bottom of the pyramid join the main stream formal financial system. An inward look into the supporting infrastructure highlights the lack of the same. The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, 43,962 branches (38.2%) and 23,334 1 ATMs (14.58%) are in rural areas. This indicates that banking in India is under-penetrated in comparison to other emerging markets with 70 per cent of the country's population, predominantly rural, being serviced by 38 per cent of branches and 15 per cent of ATMs.

Moreover, there are more than 1.4 lakh Business Correspondents (BCs) of Public Sector Banks and Regional Rural Banks in the rural areas. BCs are representatives of bank to provide basic banking services i.e. opening of basic Bank accounts, cash deposits, cash withdrawals, transfer of funds, balance enquiries, mini statements etc.

Table 2 shows the year wise details regarding Banking outlets in villages, Bank Savings deposits A/c Branches, Bank savings deposit A/c –BCs ,OD Facility availed in BSBDA A/c and KCCs

PARTICULARS	2011	2012	2013	2014
Banking Outlets in villages				
• Branches	34,811	37,471	40,837	46,126
• Villages BCs	80,802	1,41,136	2,21,341	3,37,678
• Other modes	595	3,146	6,276	-
Total	1,16,208	1,81,753	2,68,454	3,83,804
Basic Saving Bank Deposit A/c – Branches				
• No. in millions	73.13	81.20	100.80	126.00
• Amt. (billion)	57.89	109.87	164.69	273.30
Basic Saving Bank Deposit A/C – BCs				
• No. in millions	31.63	57.30	81.27	116.90
• Amt. (billion)	18.23	10.54	18.22	39.00
OD Facility Availed in BSBDA A/c				
• No. in millions	0.61	2.71	3.92	5.90
• Amt. (billion)	0.26	1.08	1.55	16.00
KCCs (No. in millions)	27.11	30.24	33.79	39.90

Financial Inclusion Opportunity for Banks

As per a recent Accenture report, the financial inclusion opportunity for banks in India is estimated at USD 24.4 Bn by 2020. Within the emerging markets, this opportunity is pegged at USD 380 bn. As per the graph below, India lies just below Brazil in terms of the overall size of the opportunity. Banks have the potential to register substantial revenues if they serve the unbanked and under banked segments in a cost effective manner.

Indian banking sector has witnessed a sustained push in the form of a number of initiatives and reforms from the government as well as the Reserve Bank of India (RBI) to achieve financial inclusion. In 2006, RBI advised Banks to align their policies with the objective of financial inclusion, which saw the launch of basic banking 'No frills' account. Over the years, banks have introduced many innovations in the form of micro- ATMs, Basic Saving Bank Deposit accounts, kisan credit cards, general credit cards, and freedom prepaid cards, biometric cards, Business Correspondent Banking, relaxed KYC norms and simplified branch authorization policy, etc. to achieve financial inclusion. Moreover, mandatory requirement of opening new branches in un-banked rural centers have also helped further the cause of financial inclusion.

In the last five years, the government's financial inclusion approach has undergone several changes. In 2011, the government launched 'Swabhimaan', another financial inclusion scheme focused on providing banking services to unbanked villages with a population greater than 2000. In the second phase, the scheme was extended to cover villages with population of at least 1,600. RBI also created a Financial Inclusion Fund (FIF) with a corpus of Rs 2,000 crore to support 'developmental and promotional activities' for expanding reach of banking services towards securing greater financial inclusion. The FIF aims to support developmental and promotional activities including creating of Financial inclusion infrastructure across the country in order to secure greater financial inclusion.

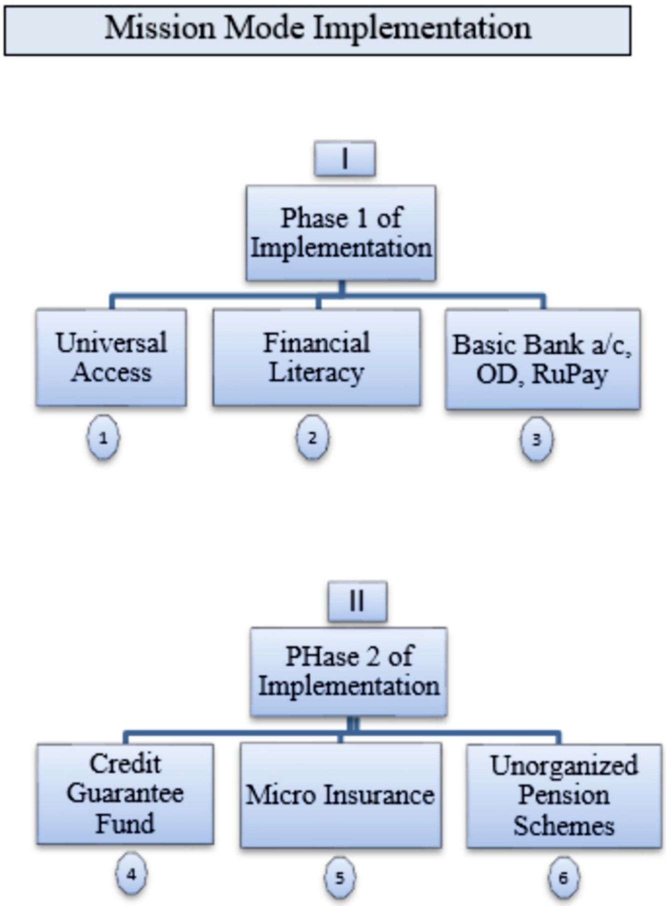
While these initiatives have brought more people into the banking ecosystem, there is still a long way to go to achieve the vision of complete & comprehensive financial inclusion. Hon'ble Prime Minister, Sh. Narendra Modi launched the Pradhan Mantri Jan-DhanYojana (PMJDY) scheme as a national mission for Financial Inclusion on 28th August, 2014. The objective of PMJDY scheme is to ensure affordable access of financial services to the vast sections of the disadvantaged and low-income groups. The financial services include credit, savings, insurance and payments and remittance facilities.

PMJDY seeks to achieve comprehensive financial inclusion of the excluded sections by 14th August, 2018 in two phases – Phase 1- In the first phase, which extended up to Aug 15, the scheme aimed at providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of 1 lakh, seeding accounts with Aadhaar numbers to make accounts ready for DBT payment, and creating awareness on banking services through financial literacy camps

Phase II (15 Aug, 2015 - 14 Aug, 2018) - The second phase which is currently underway, seeks to ensure activity in the bank accounts. This phase involves sanctioning of Overdraft facility up to ` 5000/- after six months of satisfactory operation / history, creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to 5,000, and delivering Micro Insurance and other unor-

ganized sector Pension schemes like Swavalamban.

Figure 2 gives the details of 2 phases.



The performance of the scheme so far has been remarkable. It is said, that more has been done in a year via the prime minister's Jan Dhan Yojana (PMJDY) than in several decades of traditional commercial banking. As of 20th Jan 2016, more than 20 crore accounts with deposits in excess of 30,000 crore have been opened under the PMJDY scheme.

Many of India's poorest residents do not have basic identity documentation such as a birth certificate, or a proof of address such as an electricity bill. These residents are consequently unable to access services and resources – such as opening a bank account – since they are unable to fulfil the (Know Your Customer) requirements these agencies have. The challenges increase when people migrate, since most identification documentation in India is provided by local administration and invalid when the person crosses state lines.

To address this issue, 'Aadhaar' was introduced in 2009. An 'Aadhaar' card provides a 12-digit individual identification number, issued by the Unique Identification Authority of India (UIDAI), to serve as a proof of identity and address. This card is based on biometrics technology. Over 880 million 'Aadhaar' cards have been issued as on 21 July 2015. The programme aims to achieve 100 per cent coverage by 2016. Only in a few years, Aadhaar has become a major source of identity verification. Aadhaar can be used to meet know-your-customer (KYC) rules by any financial institution through online biometric authentication, and thereby reduces the cost of paper work. By providing a clear proof of identity, Aadhaar facilitates entry for poor and underprivileged residents into the formal banking system and the opportunity to avail services provided by the government and the private sector.

On account of its growing relevance, the government has made Aadhaar a centerpiece of its financial-inclusion strategy.

According to the UIDAI data, there are around 1 billion beneficiaries under PDS,159.1 million under the LPG subsidy, 91.7 million under MGNREGS, 27.1 million under pension schemes (National Social Assistance Programme) and 54 million under EPF. The Aadhaar seeding in these schemes, as per the latest data from UIDAI, are MGNREGS (52.29%), the pension schemes (23.22%), LPG subsidy (52.61%), PMJDY (42.08%), EPFO (17.14%), and PDS (20%). Going forward, the innovations leveraging the 'Aadhaar' card will assist in further broad-basing the access and acceptance by financially excluded segments. However, considerable front-end work must be done, and many barriers removed, before unbanked poor can realize the impact.

CONCLUSION:

The regulator has to create a suitable regulatory environment that would keep the interest of all the stakeholders. The concern of banks about profitability is to be addressed by the regulator as the entire process of financial inclusion would be a kind of social work in the first few years. The concerns of the government about the reach, feasibility and implementation of government policies to the last mile needs to be addressed. Undoubtedly the issue of expanding the geographical and demographic reach poses challenges from the viability/sustainability perspectives and appropriate business models are still evolving and various delivery mechanisms are being experimented with by the various government agencies at the central and state level. But somewhere the efforts taken are not good enough to encounter this staggering issue of financial exclusion. Financial literacy and level of awareness continue to remain an issue with regard to usage of financial services/products. Challenges of financial exclusion are faced by most of the states of the country and in order to solve it states have to develop its own customized solutions drawing upon its own experiences and features and those of its peers across the country. Financial Inclusion has not yielded the desired results and there is long road ahead but no doubt it is playing a significant role and is working on the positive side .

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